CHUKA UNIVERSITY

UNIVERSITY EXAMINATION

RESIT /SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 434: INTERNATIONAL FINANCE

STREAMS: **TIME:2 HOURS**

DAY/DATE: FRIDAY 05/11/2021 **8.30 A.M – 10.30 A.M**

INSTRUCTIONS:

Question One

a) Describe forfaiting as adopted in international finance. (3 marks)

b) Explain any four methods of payments that could be used by a Multinational corporation (MNC) to settle international payments. (6 marks)

c) Consider the following spot and forward point quotes of (¥/Ksh).

Outright spot	JPY118.27 - JPY118.37
Forward points (3 months)	1.43 - 1.40

Required:

Outright forward quotation (3 marks)

d) It is 1st March. A US company buys goods worth €745,000 from a German company payable on 30th June. The US Company wants to hedge against the euro strengthening against the dollar. The current future rate was $0.9212 = €1 and the June futures rate was $0.9245. The standard size of a 3-month futures contract is €125,000. On 30th June, the spot exchange rate was $0.9351.

Required

Evaluate the hedge. (6 marks)

e) The one-year risk-free interest rate in Rwanda is 10 percent. The one-year risk-free rate in the Kenya is 2 percent. Assume that interest rate parity exists. The spot rate of the Rwanda Franc is KES 14.

Required:

The one-year forward rate of the Rwanda Franc. (6 marks)

f) Gitau specializes in forex trading. The following quote is provided:

Swiss Franc/ Kenya Shilling	=SFR 1.5971/KES
Australian Dollar/ Kenya Shilling	= A$ 1.8215/KES
Australian Dollar/ Swiss Franc	= A$ 1.4400/ SFR

Required:

Arbitrage profit, if any, assuming Gitau has Kes.1,000 to invest. (6 marks)

Question Two

a) A Kenyan exporter is due to receive from a South African customer ZAR 407,500 in June 2021. The following information is currently available.

	ZAR/KES
Spot rate	1.9575 - 1.9595
Current KES futures contract	1.9600
The rates applicable on the invoice due date in June 2021	
Spot rate	1.9670 - 1.9690
June KES futures Contract	1.9655

The applicable futures contract size is KES 62,500.

Required:

Amount receivable based on currency futures hedge. (10 marks)

b) Every year, the United Nations Conference on Trade and Development (UNCTAD) publishes annually a list of the world's 100 largest companies based on their degree of international activities.

Required:

Explain any five factors that prompt the corporate expansion of multinationals across borders.

(10 marks)

Question Three

a) Diary Limited is a Kenya firm considering investing in a new project in the Gambia which will have a life of four years. The initial invest is Dalasi 150,000 including working capital. The net after tax cash flows which the principal will generate are Dalasi 60,000 per annum for years 1, 2 and 3 and Dalasi 45,000 in year 4. The terminal value of the project is estimated at Dalasi 50,000.

The current spot rate is Dalasi 1.7/KES.1 and economic forecast expects the Kenya shilling to strengthen against the Gambian Dalasi by 1% per annum over the next four years. The company evaluates Kenyan projects at 14 per cent.

Required: Advice the management. (12 marks)

b) Describe the following international financial markets.

i) International bond market. (4 marks)

ii) International equity market. (4 marks)

Question Four

a) Distinguish between spot markets and forward markets. (4 marks)

b) Describe the three basic types of Foreign Exchange exposure/risks. (6 marks)

c) Global limited is a Kenyan based multinational company that has affiliates in Country A, Country B and Country C. The following payment matrix relates to the inter-affiliates cash flows for the month of March 2020.

		Kenya	Country A	Country B	Country C
			Receipts		
Affiliate	Disbursements	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Kenya		-	40,000	75,000	55,000
Country A		8,000	-	-	22,000
Country B		15,000	-	-	17,000
Country C		11,000	25,000	9,000	-

Required:

Illustrate the effect of multilateral netting on inter-group receipts and payments and determine the savings from the multilateral netting assuming that the foreign exchange cost of transferring funds is one percent of the transactions value. (10 marks)